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December 21, 2001

Ms. Gloria Blue
Secretary, Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Comments Pursuant to Trade Policy Staff Committee Evaluation of Options for Action under Section 203

Dear Ms. Blue:

These comments are submitted on behalf of the Steel Fastener Working Group, a group of fastener manufacturers who purchase various types of carbon and alloy and stainless steel for use as raw material in the production of metal fasteners for the automotive, aerospace and other industries. They are intended to respond to your request for comments published in the Federal Register on October 26, 2001 (Volume 66, Number 208) (Page 54321-54324).

BACKGROUND INFORMATION AND COMMENTS

The United States fastener industry is a $10 billion industry, with just over $7 billion in sales attributable to domestic fastener manufacturers and the remainder to imports. Approximately 45,000 people are employed in some 375 fastener manufacturing facilities throughout the U. S. Billions of fasteners are used each year in the manufacture of every type of product made in the U.S. from automobiles and airplanes to bridges and boats—in fact, for any product that must be disassembled and reassembled for maintenance and repair, fasteners are an absolute requirement.

The member companies of the Steel Fastener Working Group (SFWG) are deeply concerned about the potential negative impact of trade remedies that may undertaken by the President as a result of the recommendations made by the International Trade Commission following its Global Safeguard Investigation on steel. The SFWG supports a strong domestic steel industry, but believes that efforts to help the steel industry become more competitive must not unfairly burden steel-consuming industries. Specifically, the SFWG believes tariffs or quotas on imported steel will do little to help the domestic steel industry adjust to competition from foreign steel producers, and more importantly, could devastate steel-consuming industries such as the fastener industry, causing a far greater loss of domestic jobs than would be retained in the steel industry.

This is not mere speculation—the fastener industry has seen this circumstance before, and suffered the consequences. Under the Voluntary Restraint Agreements on steel of the 1980s, offshore steel producers were quick to realize that their steel production could be easily converted to value-added products, such as fasteners, which could be shipped to the

U.S. without restriction. Simultaneously, prices of both domestic and imported steel rose due to reduced supply, whether real or threatened. Foreign producers of fasteners, with access to lower priced steel in their home market, were able to take market share in the United States due to lower prices, and the domestic industry could not respond due to higher costs. The end result was a loss of some 45 percent of the fastener industry's domestic capacity, which has never been recovered. And, as witnessed by the fact that the steel industry is again seeking massive trade protection from the U. S. government, neither the VRAs nor any of the numerous other trade remedies afforded during the past three decades have succeeded in helping the domestic steel industry become more competitive in the long term.

Testimony before the Commission during its hearings on potential remedies for the domestic steel industry revealed a cruel irony. According to virtually all economic models presented, even tariffs as high as 50 percent (the maximum allowable) would fail to stimulate a substantial rise in overall average domestic steel prices, and therefore would provide little relief to the domestic industry. But because many of the specific products for which the Commission has found injury are not made by the domestic industry at all, or not in quantities or at levels of quality required by consuming industries, 50 percent tariffs on those products would result in a <u>50 percent increase in cost!</u> In an environment where our customers are refusing to accept <u>any</u> cost increases, and instead are pressing hard for continued cost reductions, this is a guaranteed recipe for domestic job losses in the fastener industry.

As I understand it, in making its recommendations for remedy to the President, the Commission is required by the statute to consider several factors. First, the Commission must determine the effects of its recommendations on the petitioning industry as well as other domestic industries and consumers. Although we have not reviewed the ITC report in detail, in our view, any thorough analysis of the impacts of tariffs or quotas on the fastener industry and its customers will reveal severe negative results, and if, as one would expect, those results are felt by other steel consuming industries as well, then the overall negative impact of tariffs and quotas would certainly outweigh any benefits enjoyed by the domestic steel industry.

Secondly, the Commission must ensure that any remedy recommended will facilitate efforts by the domestic industry to make a positive adjustment to import competition, and will provide greater economic and social benefits than costs. The SFWG believes this showing will be difficult, if not impossible, in this case. In fact, a recent study by the Consuming Industries Trade Action Council (CITAC) shows that the domestic economy would lose as many as 70,000 jobs if the ITC's recommendations were implemented, or 7 jobs lost for each job "saved" in the steel industry. In truth, no jobs would be "saved" in the steel industry, because if the industry is truly to make adjustments to become competitive on a global basis, the net result will be fewer steel jobs in the U. S.

The domestic steel industry has received more trade assistance and protection from imports during the past 30 years than any other single industry, yet it has repeatedly proven unable to successfully compete in the world market. And, based on testimony before the ITC, their preferred remedy of 50 percent tariffs will not result in a sufficient rise in domestic prices to enable the industry to be competitive long-term. This indicates that the domestic steel industry's problems do not stem primarily from imports, but from its relative competitive position in the global market. Given these facts, it is hard to imagine how the Commission could reach a conclusion that its proposed remedies would “facilitate efforts by the domestic industry to make a positive adjustment to import competition.”

If the remedies available to the Commission will not help the domestic steel industry, and will not provide greater economic and social benefits than costs, then what should be done to ensure a strong domestic steel industry for the future?

First, the domestic industry must address its capacity and cost issues.

The industry is not a monolith, but rather a range of individual companies whose cost structures are vastly different. Within that range are companies that are fully cost-competitive, and companies that are completely uncompetitive. During the past decade virtually no capacity has been removed from the U. S. industry, and in some areas capacity has been added. For the domestic steel industry to become and remain strong and competitive in the future, high-cost capacity must be allowed to disappear. This has surely been the case in the fastener industry. The SFWG believes that any trade assistance or government funding to the domestic steel industry should be structured to require the permanent closure of the noncompetitive capacity in the U. S. This can be accomplished via market forces, but it must be a component of any workable solution to the industry’s long-term competitiveness problems.

Second, a long-term solution must be found for global overcapacity in steel production.

Many developing countries have subsidized the production of steel in order to provide a basic building block of a manufacturing economy. However, when their own domestic markets have not been able to absorb their total steel production, they have turned to exports as a means of keeping their steel industries operating. We believe that steps must be taken to facilitate an orderly global market for steel. We note that the Administration has begun a process under the Organization for Economic Cooperation and Development (OECD) to address issues of global capacity, and additional meetings are scheduled for early next year. The SFWG believes that process should be given every opportunity to work.

Third, the domestic steel industry must address excessive employee and retiree benefit costs, the so-called “legacy costs.”

Some high-cost companies in the domestic industry are burdened by excessive and unfunded employee and retiree benefit costs, and some economists have suggested that for some of the integrated steel producers these legacy costs may add as much as $30-60 to the cost of a ton of steel. A strong, competitive domestic industry must find a way to ensure the continuation of legitimate benefits for employees and retirees without rendering itself uncompetitive. The SFWG believes the government could provide mechanisms for protection of adequate benefits for retired steel workers, but only in conjunction with real and permanent reductions in noncompetitive capacity and only if such protections do not shift these costs to steel-consuming industries.

SUMMARY AND CONCLUSION

The Steel Fastener Working Group supports a strong domestic steel industry. However, the Group also believes that tariffs or quotas on imported steel will do little or no good for the domestic steel industry, but will severely and adversely impact the domestic fastener industry. Further, the SFWG believes that its proposed solutions for the problems of uncompetitive capacity and excessive employee and retiree benefit costs in the domestic industry, as well as for the problem of global overcapacity in steel, will provide an environment where efficient U. S. producers of steel can compete profitably, and where U. S. steel consuming industries can remain competitive as well.

Accordingly, we urge the President to carefully consider the impacts of any proposed remedy on all segments of the U. S. economy, and to work with all potentially impacted parties to craft a workable long-term solution to the problems of the domestic steel industry.

Thank you for your attention to these concerns.

Sincerely,

Robert E. Brunner
Chairman, Steel Fastener Working Group